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C O N F I D E N T I A L SECTION 01 OF 02 VIENTIANE 000241

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TAGS: [PREL](#) [EAID](#) [EINV](#) [UN](#) [LA](#) [CN](#)
SUBJECT: AMBASSADOR RAISES FOOD SECURITY; CHINESE DISCUSS
THAT LUANG INVESTMENT AT INFORMAL UN DONOR MEETING

REF: A. VIENTIANE 202
[1](#)B. VIENTIANE 83

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Classified By:
AMBASSADOR RAVIC R. HUSO. REASON: 1.5 B AND D.

[1](#)1. (SBU) Summary: Topics at an April 10 Informal Quarterly Donors Meeting co-chaired by the Ambassador included food security in Laos, focusing on poor governmental policy choices in the often rice-deficient uplands areas, and the Chinese-financed development project at That Luang marsh (ref A). The Ambassador raised problems World Food Program (WFP) contractor Natural Products International (ref B) has had with the Lao government, and the WFP Deputy Director noted that if the government failed to renew NPI's operating licenses it would be difficult for WFP to find an alternative source of Corn-Soy Blend (CSB) to provide in-school feeding to 90,000 children in the north. Should the company be compelled to close, WFP's plans to expand their feeding program in the south based on a new USDA Food for Education grant could also be negatively affected. End Summary.

[1](#)2. (U) On April 10, Ambassador Huso co-chaired the UN's Informal Quarterly Donor's Meeting (IQDM). (Ambassadors and international organization representatives rotate as co-chairs with the UN Resident Coordinator.) At the Ambassador's suggestion, the overall theme of the meeting was food security. During his opening remarks the Ambassador focused the attendees -- representatives of the donor community, UN agencies, and international NGOs -- on the global rise in food prices and requested they consider how global food inflation would impact Laos. Hanoi-based IMF representative Bingham presented the IMF's near-term outlook for Asian and world growth. Focusing on Laos, Bingham noted that the full effect of rapidly rising regional rice prices had not yet been felt in the official Lao Consumer Price Index (CPI), although it did show a rise in the first three months of 2008. The large influx of dollars stemming from Lao resource exports, primarily in the mining sector, is beginning to cause inflation. Regional food price increase are also to blame: Embassy market surveys shows that rice prices in Laos for Thai white rice have risen about 43% since February 2008. For sticky (glutinous) rice, which makes up

the bulk of what the Lao eat, prices in Vientiane have risen about 8% according to the government and about 16% according to Embassy market surveys for the highest quality rice. Most glutinous rice consumed in Laos is also grown domestically, and the international market for sticky rice is small. The most recent Lao CPI data shows inflation running at an 8% annualized rate.

13. (U) The Chinese Political Counselor in Laos, Mr. Li Kewu, gave a short presentation on the controversial That Luang Marsh development near the center of Vientiane (ref. A). Speaking via his interpreter, Mr. Li said that the "Vientiane New City" was a comprehensive development project, to be jointly managed by the Lao and the Chinese and was most definitely not/not a "Chinatown." Mr. Li noted that the development rights came as a quid pro quo for the China Development Bank agreeing to fund facilities allowing Laos to host the 25th South-East Asia (SEA) Games in 2009. In response to a number of questions regarding the environmental report and compensation of landowners, Mr. Li had no specific answers but suggested the Lao Government (GOL) and the developer remained in negotiations over the comprehensive development plan for the "New City." (Comment: This evasive answer could indicate the GOL is attempting to recraft the concession in the face of widespread public discontent. End Comment.)

14. (SBU) European Commission (EC) Attach for Economics and Reform Mel Jones gave a well-received presentation addressing poverty in the uplands regions of Laos and the food insecurity that results from governmental policies that are perhaps well-meaning but often increase food insecurity. Specifically, Mr. Jones pointed out that the EC believes research shows that the eradication of slash and burn farming, combined with governmentally-sponsored village relocation projects, the rise of land concessions to

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agribusiness, and the constriction of land allocation to affected villagers, is leading to a rise in food insecurity and poverty, the opposite of the government's stated goals. The large number of rubber concessions, according to Mr. Jones, will likely lead to a competition for land between rubber or food production. Because so many of the concessions are granted non-transparently, with the villagers often the last to know, the potential for further food insecurity is high.

15. (C) While discussing uplands poverty and food insecurity the Ambassador raised the status of the U.S. investment Natural Products International (NPI, ref. B) NPI has been active in Laos since 1997, and has become the prime contractor for the World Food Programs school feeding program in northern Laos. NPI has completed two WFP contracts for Corn-Soya Blend (CSB), and now has the capacity to produce all 750 tons of CSB needed by the WFP for its programs in Laos. The WFP recently won a grant from the United States Department of Agriculture to begin a school feeding program in southern Laos. NPI was expected to provide the CSB for that program as well. However, the Lao government, especially at the provincial level in Bokeo, has been slowly squeezing NPI and making them feel unwelcome by refusing to issue an operating permit and pressuring groups such as the German NGO GTZ not to make working capital loans to NPI as they have done previously.

16. (C) Ambassador Huso pointed out that actions taken against NPI by the GOL were inimical to food security. Not only did NPI provide CSB for the WFP, it sources its materials from local farmers. The NPI/WFP partnership is seen as a model by the local WFP representative. The head of WFP Laos and the local NPI general manager were unable to attend the informal donors meeting as they were in Rome discussing how NPI could expand its operations to other troubled areas and help provide locally sourced CSB. WFP Deputy Director Elizabeth Faure told the meeting that if the

GOL allowed provincial authorities to pressure NPI to close, WFP would find it difficult to source enough CSB from abroad when school starts in September. Privately, Faure (protect) told econoff that the WFP was faced with a tight deadline to source CSB from outside Laos. She stated that WFP was considering letting the deadlines pass without a resolution of the difficulties facing NPI and making it clear to GOL officials that if they closed NPI WFP would not be able to supply CSB for the school feeding programs when they start in September. Faure also said WFP was lobbying GOL officials at all levels in support of NPI, and hoped the threat of hungry schoolchildren in the news might help derail plans to shut down NPI, at least this year. The Ambassador and other Embassy officers have worked closely with WFP and the donor community to keep this issue in front of senior central government officials. Whether they will intervene effectively at the local level remains to be seen. In the meantime, NPI continues to meet its previous contract obligations but has not signed new contracts with WFP.

HUSO